

State of Washington

# TWENTY-NINTH REPORT

Washington State Liquor Control Board



**DEFENDANT'S  
EXHIBIT**

CASE  
NO. C04-0360P

EXHIBIT  
NO. 445

Resp to Costco RFP  
2095

TX445-001

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of evidence. The licensee when served a complaint and notice of hearing also receives for his information an instruction sheet fully explaining the procedure of a formal hearing; that he may have an attorney to represent him at the hearing, if he so desires, or he may appear and represent himself. All formal hearings are held at the city hall or court house nearest to the licensee's place of business.

The examiner, appointed by the Board, conducts all formal hearings, issues all subpoenas as requested by the legal division or by the licensee or the licensee's attorney, or, the examiner may issue subpoenas on his own motion. At formal hearings the Board's case is presented by an assistant attorney general. All testimony is sworn testimony and is recorded by a court reporter. In a case where a licensee appears without an attorney, it is the examiner's responsibility to see that the licensee's rights are protected and further to see that he is assisted in presenting his defense.

When an infraction has been observed by an inspector or a local officer, or is freely admitted by the licensee or for any other valid reason, the examiner, upon written instructions by the Board, may be requested to conduct an examiner's investigation. In such instances the examiner prepares the proper waiver form and personally presents it to the licensee, who, if he so desires, may elect to waive formal hearing. No inducement or coercion is employed by the examiner to obtain admission that the charge or charges are true. The licensee is also fully advised of his option to request a formal hearing. Should the licensee elect to waive formal hearing, a statement may be given to the examiner admitting and explaining the charge or charges, setting forth any mitigating circumstances which he believes have a bearing on the matter and which he desires to have the Board consider in making a final decision. The licensee may also request to be present when the Board meets to arrive at a final decision on the waiver.

The Board will not permit a licensee to waive formal hearing on any alleged violation that, if proved, would probably result in cancellation of the license, but will always order a formal hearing in such cases.

In some instances the Board may issue a show cause order directing the licensee or licensees to appear before the Board to show cause, if any they may have, why their license privileges should not be cancelled or suspended. The show cause order sets forth and explains the matter or matters under inquiry, which gave rise to the inquiry and which resulted in the order. The licensee may, if he desires, be represented by an attorney at this type of procedure.

During the twelve-month period covered by this report there were 116 formal, 187 informal, 23 show cause hearings, and eight decisions were rendered without hearings as a result of Justice Court or Superior Court convictions. In addition, there were two show cause and five informal hearings involving wholesale licensees, and one withdrawal of a certificate of approval.

### BREWERS, BEER WHOLESALERS AND WINERY DIVISION

Beer sales in the State of Washington during the 1961-1962 fiscal year climbed to the highest total ever recorded by the Board for a similar period. While domestic wine sales were considerably larger during the past year than for the 1960-1961 fiscal year, it was not the highest of record. Export sales

of state breweries and wineries also showed substantial increases. Higher sales of beer and wine in the state probably do not reflect greater per capita consumption of either beverage. It is believed the increase is attributable to a larger than normal influx of tourists, more numerous military personnel and, to some extent, the state's growing population.

Coincident with the added volume of sales was the need for closer scrutiny of business practices of the industry by the brewers, beer wholesalers and wineries division. Violations of laws and regulations were somewhat higher than in recent years, and major penalties were assessed by the Board in some instances.

A system of spot audits of licensees' business records has been instituted by the division and will be continued on an indefinite basis. These audits have proved to be invaluable, both to the supervising agency and to the individual licensee, and in many cases will result in improved bookkeeping procedures and the correction of operating practices which do not comply with liquor laws and regulations.

#### **BREWERS AND BEER WHOLESALERS**

**Production and Sales:** For the period from July 1, 1961, through June 30, 1962, total beer sales in the state, including out-of-state breweries, amounted to 1,408,620.57 barrels, an increase of 3.72 per cent over the 1,356,083.26 barrels sold the previous year. Based on a state tax of \$1.00 on each 31-gallon barrel, the revenue derived from actual sales of beer in the state was \$1,408,620.57. Washington breweries sold 81.3 per cent of the total in the state, amounting to 1,145,207.90 barrels, compared with 1,107,613.88 barrels the previous year. Out-of-state breweries sold 263,412.67 barrels in the state during the 1962 fiscal year, compared with 248,469.38 barrels the previous year. Export of Washington beer amounted to 1,922,160.17 barrels, approximately 59.4 per cent of the total state production. This represents an increase of 41,432.12 barrels over the 1960-61 fiscal year. Local breweries produced 3,235,372.32 barrels, compared with 3,155,761.82 barrels last fiscal year.

**Licenses Issued:** Eight brewery licenses were issued during the 1962 licensing year, seven of which were licensed to handle beer at wholesale. One brewery holds a laboratory distiller's license. There were 171 beer wholesaler's licenses issued, the same number as during the previous year. Fifteen beer wholesaler and beer importer's licenses were transferred to other individuals. Eleven changes of location and three changes of license trade names were recorded during the year. A total of 107 beer importer licenses were issued, one more than last year. Thirty-four certificates of approval were issued, one less than last year. Six general manufacturer's licenses were issued, one more than the previous year. Agent's licenses covering brewers and beer wholesalers totaled 808, the same number as the 1961 fiscal year.

#### **DOMESTIC WINERIES AND WINE WHOLESALERS**

Domestic wineries are required by law to use exclusively products grown in the State of Washington. The large quantity of fruit and berries purchased annually by these wineries has a significant impact on the state's agricultural economy. During the past fiscal year these purchases aggregated approximately: Grapes—14,914,080 pounds; apples—3,819,695 pounds; logan-

berries—230,731 pounds; blackberries—206,453 pounds; currants—41,078 pounds.

**Production and Sales:** Taxable sales of 1,310,765.20 gallons of domestic wine were made in the licensing year ended June 30, 1962, producing revenue computed at the rate of 10 cents per gallon, amounting to \$131,076.52. By comparison, 1,221,221.70 gallons were sold during the previous year. Domestic wine sales increased 89, 543.50 gallons, or 7.3 per cent over last year. Export sales of domestic wine amounted to 172,633.20 gallons, compared with 118,196.40 gallons during the 1961 fiscal year. Sales of domestic wine made up 47.6 per cent of total sales within the state. Based on available statistics, domestic wineries produced 2,133,148.81 gallons during the year, an increase of 460,758.98 gallons over the previous year.

**Licenses Issued:** Nine domestic winery licenses were issued during the licensing year, identical with last year. There were 133 licenses issued to the domestic wine wholesalers, one more than last year. Eleven domestic wine wholesalers transferred licenses to other individuals and eight changed locations. Seventeen agent's licenses were issued to domestic wineries.

#### LABORATORY

The University of Washington made available to the Board facilities and personnel of its state laboratory for analysis and control of alcohol and alcoholic beverages. The laboratory is under the direction of the Dean of the College of Pharmacy, who is a chemist for the State Department of Agriculture. Following is a summary of analyses of assorted liquors for the 1962 fiscal year:

Product	Legal	Illegal	Total
Wine (tank samples).....	119	5	124
Wine (finished samples).....	76	9	85
Whiskey and Alcohol.....	1	0	1
Beer and Ale.....	79	45	124
Fire Damage (Beer and Wine).....	44	23	67
Cooking Wine .....	2	4	6
Total .....	321	86	407

#### MERCHANDISING DIVISION

##### Liquor Purchasing

The greatest single problem for the merchandising division during the fiscal year ended June 30, 1962, was the uncertainty of the effect on the liquor sales volume resulting from the influx of visitors into the State of Washington during Century 21—Seattle World's Fair. The Fair opened April 21, 1962, scheduled to operate for six months through October 21, and it was necessary to anticipate the increased demand so that purchases of required alcoholic beverages could be made in order to allow time for shipment by the suppliers from their plants or warehouses, and distribution from the Washington State Liquor Control Board's warehouse to the stores and agencies.

Most of the scotches, cognacs, rums, and imported vermouths are shipped direct from a foreign port to Seattle, and as long as three or four months may be required for delivery from the time an order is placed. Because of the time element involved in delivery, it was necessary to order many items well in advance in sufficient additional quantities to maintain inventories for sales expected to be in excess of normal.

From opening day of the Fair on April 21, through June 30, the sales of wines and liquors were not as great as it was originally thought they would be. However, total dollar sales in May were 13 per cent over May, 1961, and in June the increase over the previous June was 17 per cent.

On April 1, 1962, a number of new brands were listed in various categories, including whiskies, gins, vodkas, brandies, liqueurs, and various types of wines. The previous general listing of new brands was in March, 1960, although some specialty items had been listed at various times since that date. There was, therefore, a need for brands which had become popular in other states and for additional items in classifications which were reflecting marked increases in demand. An example of this latter situation is the domestic table wine group. An average of 8,900 cases of table wines per month were sold during the fiscal year ended June 30, 1961, whereas the average for the current fiscal year is 12,609 cases per month.

During the past fiscal year, July 1, 1961, to June 30, 1962, total case sales have increased 94,512 cases over the previous fiscal year, when 1,948,629 cases were sold whereas 2,043,141 cases were sold in the current fiscal year. This increase was reflected in an upward trend in nearly all of the "volume" classifications except dessert wines and aperitif wines. Dessert wines were down 11,690 cases for the year, from 233,501 cases in the previous year to 221,811 cases for the year ended June 30, 1962. Aperitif wines, which have had spectacular acceptance since early 1959, also declined somewhat in sales for the same periods, from 109,747 cases to 107,768 cases.

The spirituous beverage classifications, in general, were up in sales. Bottled-out-of-bond bourbon increased from 472,655 cases in the former fiscal period to 494,341 cases in the current fiscal year. Blended whiskey increased from 411,963 cases to 423,421 cases in the same period. Sales of both gin and vodka have been advancing, gin from 98,974 cases to 106,378 cases, and vodka from 197,458 cases to 204,989 cases.

Percentage markups are applied to the delivered cost at the Seattle warehouse to arrive at the retail price. The products handled by the Board are classified into three groups, with different rates of markup for each:

#### PERCENTAGE MARKUP SCHEDULE

<b>GROUP I</b>	
Distilled Spirits .....	45.9%
<b>GROUP II</b>	
Wines less than 14% by volume.....	53.6%
All imported wines except Vermouth.....	
Sparkling Wines.....	
Malt Beverages .....	
<b>GROUP III</b>	
Wines more than 14%, but not more than 21% by volume.....	66.3%

The state sales tax of 15% is added to all items after the above markup percentages have been applied. An additional state sales tax of 1.1 cents per fluid ounce or fraction thereof is added to all spirits (excludes wine and malt beverages).

In order to arrive at the base cost for markup, incoming freight charges must be added to the suppliers' prices. For items purchased on a direct import basis, In Bond, Federal tax and duty, plus freight and other incidental charges, are first added before the percentage markup is applied.